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# RPC BULLETIN

U.S. Senate Republican Policy Committee

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## **Competition Lowers Health Care Costs Again**

### *CBO Projections Continue to Show Benefits of Competition in the Part D Program*

During the budget debate, Democrats are certain to take aim at Medicare Advantage plans and argue that we need to abandon competition among private plans and force seniors into a one-size-fits-all government-run program. But policy makers do not need to look any further than the Part D program for proof that competition works.

The CBO lowered its estimates of the cost of the Part D program for 2008 by \$40 billion as compared to only two years ago.<sup>1</sup> While CBO had projected in 2006 that outlays for Medicare Part D for 2008 would total \$85 billion,<sup>2</sup> this year's estimate cuts that number almost in half to \$45 billion. If you compare the projections from this year to projections from only two years ago, the ten-year cost of the Part D program (2007-2016) will have been reduced by \$506 billion (from \$1.278 billion projected last year to \$772 million projected this year). Competition clearly is working to keep costs down.

According to the CBO estimate, the cost of prescription drug plans this year is only about two percent higher than for 2007, far lower than the rate of inflation for medical costs overall.<sup>3</sup> In fact, because the program will recoup savings from earlier years, the costs for 2008 will be *lower* than the cost for 2007. Importantly, seniors remain extremely happy with their prescription drug plans and the benefit overall.<sup>4</sup>

The Medicare Part D program is probably the only major government program in history that delivers a high quality benefit at costs that are lower than expected year after year. The success of the competitive model created by the Part D program shows that health care needs more, not less, competition.

**Competition within Part D continues to curb projected costs:** CBO said that, "The current estimate for Part D spending is lower than CBO's August 2007 estimate because bids that drug plans submitted to provide drug coverage in calendar year 2008 are lower than expected—on

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<sup>1</sup> CBO Budget and Economic Outlook: Fiscal years FY 2008-2018. Released January, 2008. Available at: [http://www.cbo.gov/ftpdocs/89xx/doc8917/01-23-2008\\_BudgetOutlook.pdf](http://www.cbo.gov/ftpdocs/89xx/doc8917/01-23-2008_BudgetOutlook.pdf).

<sup>2</sup> CBO Budget and Economic Outlook: Fiscal Years FY 2007-2016. Released January, 2006. Available at: <http://www.cbo.gov/ftpdocs/70xx/doc7027/01-26-BudgetOutlook.pdf>

<sup>3</sup> CBO Budget and Economic Outlook: Fiscal years FY 2008-2018, pg. 59.

<sup>4</sup> 76 percent of seniors reported having a favorable impression of the Part D Benefit. Dutko Research Poll, Sept. 7-11, 2007.

average, only about 2 percent higher than the 2007 bids. As a result, CBO reduced its projection of the per capita costs of providing drug coverage.”<sup>5</sup>

**Plans will return an estimated \$4 billion to the government this year because of cost savings generated by competition:** The Centers for Medicare and Medicaid Services will collect more than \$4 billion from drug plans because of lower than-anticipated spending in 2006. According to the CBO, “The initial payments to those plans were based on projected expenses. Actual prescription drug costs in 2006 were lower than projected, resulting in a reduction (of about \$4 billion) in the net amounts paid to plans so far this year.”<sup>6</sup> How many other government programs are returning money to the government because they deliver results at lower than anticipated costs?

**As with Medicare Advantage plans, seniors have shown that they enjoy the benefits of competition by signing up in significant numbers:** CBO reported that “during 2007, almost 30 million people—about 73 percent of all Medicare beneficiaries—were enrolled in the drug benefit.” According to the GAO, as of August 2007, 8.1 million people—about one out of every five Medicare beneficiaries—were enrolled in an MA plan. The fact that seniors are choosing the benefits of competition shows that we should be encouraging competition rather than forcing seniors into one-size-fits all government programs.

## CBO Budget and Economic Outlook, 2008-2018: Released January, 2008

<b>Box 3-2.</b>														
<b>Continued</b>														
<b>CBO's Projections of Spending for Medicare Part D</b>														
<b>(Billions of dollars)</b>														
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Total, 2009- 2013	Total, 2009- 2018
Gross Medicare Part D Outlays	49	45	57	62	74	70	85	95	106	129	134	136	348	948
Offsetting Receipts														
Premiums	-2	-2	-2	-3	-3	-4	-4	-4	-5	-6	-6	-7	-15	-44
Payments from States	-7	-7	-8	-9	-10	-10	-11	-12	-13	-15	-16	-18	-48	-122
Subtotal	-8	-9	-10	-11	-13	-14	-15	-17	-18	-20	-23	-25	-63	-166
Total	41	36	46	51	62	56	69	78	88	109	112	112	284	782
Memorandum:														
Net Part D Outlays Adjusted for the Timing of Certain Payments	41	36	46	51	56	62	69	78	88	98	110	124	284	782
Source: Congressional Budget Office.														

<sup>5</sup> CBO, The Budget and Economic Outlook: Fiscal Years 2008 to 2018.

<sup>6</sup> CBO, The Budget and Economic Outlook: Fiscal Years 2008 to 2018.

**CBO Budget and Economic Outlook, 2007-2016:** Released January, 2006

CBO's Projections of Spending for Medicare Part D (Billions of dollars)											
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Gross Medicare Part D Outlays	41	70	85	93	103	114	128	142	161	180	202
Offsetting Receipts											
Premiums	-5	-9	-11	-11	-13	-14	-16	-18	-21	-24	-27
Payments from states	-5	-9	-10	-11	-11	-12	-13	-15	-16	-17	-19
Subtotal	-11	-17	-20	-22	-24	-27	-30	-33	-37	-42	-47
Total, Net Medicare Part D Outlays	30	53	65	71	79	87	98	109	123	139	155